Graduating out of LDC group with momentum

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Bangladesh is well-poised to be considered for graduation from the LDC group at the next review of the UN's Committee for Development Policy (CDP) in March 2018. As may be recalled, to be eligible for graduation the thresholds for at least two of the three graduation criteria (Human Asset Index, Economic Vulnerability Index and per capita Gross National Income) need to be attained. While a number of LDCs, including from South Asia (Nepal and Bhutan), are expected to be considered for graduation, Bangladesh is likely to have the unique distinction of attaining (and surpassing) the thresholds for all the three graduation criteria by the time the CDP convenes its meeting. This, no doubt, is indicative of the strength of the Bangladesh economy, and lays a good foundation for going forward towards the final graduation out of the LDCs in 2024 following the two successive triennial reviews by the CDP in 2021 and 2024.

No doubt, graduation out of the LDC group will entail a number of challenges for Bangladesh. Consequently, issues of smooth graduation, graduation with momentum and sustainable graduation assume heightened importance for the country. Projections undertaken for a recent study by the Centre for Policy Dialogue (CPD) indicate that, Bangladesh's graduation is expected to be a smooth one in the sense that in terms of EVI and HAI she will hopefully graduate with significant surplus—in case of EVI (the threshold is 32 or below) Bangladesh's projected value for 2018 is 24.7; in case of Human Asset Index (HAI-the threshold is 66 or above) she is set to reach the value of 70.9. Thus, if Bangladesh is able to maintain the current dynamics, she will be able to graduate in the year 2024 with significant momentum. Graduation with momentum will enable Bangladesh to ensure that graduation remains sustainable as Bangladesh embarks on its post-2024 developmental journey. It is from this perspective that graduation with momentum is so critically important for Bangladesh. And if this is to be ensured, Bangladesh will need to take adequate preparation so that graduation with momentum leads to sustainable graduation.

While over the next few years 15 LDCs are expected to be considered by the CDP for graduation, graduation of Bangladesh from the group will be keenly observed by the global community, for several reasons. Firstly, as should be noted, for Bangladesh, graduation from the LDC group is a one-way, irreversible journey. While it is conceptually possible for an LDC to revert back to the LDC group following graduation, because of her population size (criteria for LDC inclusion exclude countries with more than 75 million) this is not an option for Bangladesh. Secondly, Bangladesh is one of the very few LDCs which have been able to benefit from international support measures (ISMs) that are in place for the benefit of the LDCs. LDC graduation will, thus, likely have relatively more adverse implications for the globally integrated economy of Bangladesh compared to many other LDCs. Thirdly, Bangladesh stands out quite distinctly among all the LDCs because of the size of her economy (18.3 percent) and population (more than 17.3 percent). Fourthly, Bangladesh's graduation journey will be taking place at a time of increasing uncertainties in the global arena—global economic slowdown, fall in global export demand, decreasing remittance flows, cut in aid. These will make Bangladesh's graduation journey a more challenging one.

It may be noted that Bangladesh's post-LDC journey will be founded on two graduations: LDC graduation and middle-income graduation. As may be recalled, Bangladesh has recently (in 2015) graduated to lower middle-income country (LMIC) group. This will mean that access to highly concessional aid will gradually be substituted by blended and IBRD, relatively high-cost financing at a time when she will need to graduate with momentum. It is also to be noted that graduation of Bangladesh, as also of other candidate LDCs, will take place in the era of the SDGs. This will require triangulation of economic development, social inclusion and environmental sustainability which is a challenging demand from the perspective of the journey ahead for Bangladesh. SDGs call for structural transformation, reduction of inequality and leaving no one behind, creation of decent jobs, reducing gender inequality, sustainable use of land and sea resources. Many of the SDG targets and indicators go beyond LDC criteria of income growth and reduction of human and economic vulnerabilities. Thus, sustainable LDC graduation in the era of the SDGs will be even more challenging.

In view of all these, identifying the implications of the imminent LDC graduation and designing appropriate strategies towards sustainable LDC graduation are of critical importance and do have significant policy relevance for Bangladesh.

WHAT WOULD GRADUATION ENTAIL FOR BANGLADESH?

The support measures portal for the LDCs maintained by the CDP lists 136 LDC-specific International Support Measures (ISMs) across the fields of trade and market access, development finance, transfer of technology and technical assistance. Unless negotiated separately with relevant partners, the ISMs will be phased out in 2024. Four issues stand out in this connection.

Firstly, LDC graduation will entail loss of preferential treatment leading to significant erosion of preferences for Bangladesh. Bangladesh currently enjoys preferential market access in more than 40 countries. Estimates carried out for the aforesaid CPD study indicate that Bangladesh will face an additional 6.7 percent tariffs in absence of LDC treatment resulting in a possible export loss of USD 2.7 billion (equivalent to eight percent of her global export in FY2015). The adverse impacts will be most telling in the EU market where 97.8 percent of Bangladesh's exports currently enter duty-free. In the EU (and also for example Canada) this will mean an additional 8.7 percent (7.3 percent) tariff facing Bangladeshi goods. In case of apparels, Bangladesh's key export to the EU for which MFN tariffs are about 12 percent, loss of preferences will significantly reduce her competitive strength. The preference erosion will have consequent adverse implications for export earnings, industrial production and jobs unless compensatory measures are put in place.

Secondly, implications of LDC graduation for Bangladesh's access to concessional financing are also worth noting. While importance of ODA (USD 2.7 billion in 2017) in the Bangladesh economy has been coming down over the years and currently stands at about one percent of Bangladesh's GDP, ODA continues to play a significant role in many important sectors of the economy including health and education, and also infrastructure. In recent years, Bangladesh alone has received seven percent of total ODA (average for 2012-15) destined for all the LDCs. Since Bangladesh's LDC graduation coincides with her middle-income graduation, this will imply notable shift from IDA-type foreign aid (interest of mostly less than 0.75 percent per annum with long repayment period) to blended type of finance which has higher interest and more stringent terms.

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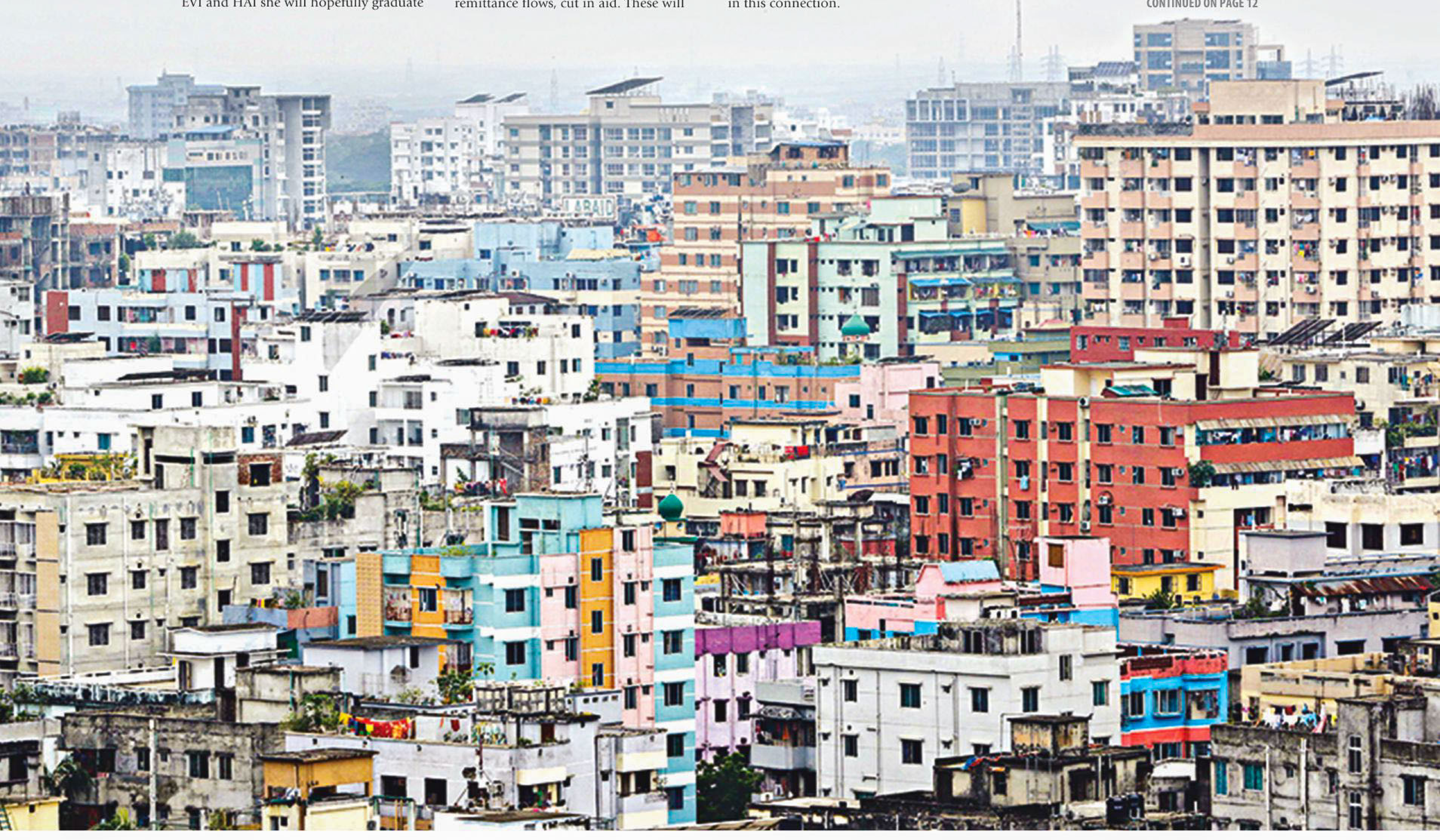

Bangladesh's post-LDC journey will be founded on two graduations: LDC graduation and middle-income graduation. PHOTO: PALASH KHAN